

June 30, 2007

Senate Finance Committee
Washington, DC

Re: Cost Basis Reporting

Ladies and Gentlemen:

This firm is a small broker-dealer in Washington, DC. With exactly three employees, we are fully self-clearing, handling cash and securities, trade execution and reporting on behalf of our clients. We are family owned and have been in business for 48 years.

As the Committee must know, in recent years, many new regulations have been imposed upon the securities industry. Some of the most prominent involve anti-money laundering, supervisory controls and order audit trail reporting. As a result of the avalanche of new regulation, my family now considers on a regular basis whether it makes sense to remain in business. Let me be clear: we have no capital problems, no client problems, and no problems with competition. We have exactly one problem: the skyrocketing cost of regulation, which seems to grow at an ever increasing rate.

With respect to the specific proposal at issue, for mandatory cost basis reporting, we are again very concerned about a threat to the viability of this firm. The complexities of this subject have no doubt been fully ventilated by others. The ultimate resolution will, presumably, involve custom programming of a data base for individual firms, or the use of a data service. The former would undoubtedly be cost prohibitive for this firm. We also must question if a commercial data base would be priced in such a way as to be cost effective for such a small user. Our experience with services of this type is that volume pricing is common, placing small firms at a distinct cost disadvantage or rendering the service effectively unavailable.

The solution, we believe, is a small firm exemption for mandatory cost basis reporting. Internal Revenue Service already has many such exemptions in place for small business (for example, involving requirements for electronic payment of taxes, and use of magnetic media). In the securities industry also, use of small firm exemptions has become more common, as the need for complex elaborate systems to regulate large financial institutions has grown.

We appreciate your consideration. In the past, we have found regulators are both surprised and pleased to learn of the small size of some of the financial institutions in our great and diverse country. Please telephone should you have questions, or if we could be of any assistance.

Sincerely,

Bonnie K. Wachtel, CEO
Wachtel & Co., Inc.